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C O N F I D E N T I A L SECTION 01 OF 02 JERUSALEM 001498

SIPDIS

NEA FOR FRONT OFFICE AND IPA; NSC FOR SHAPIRO/KUMAR;
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TAGS: [EFIN](#) [EAID](#) [ECON](#) [KWBG](#) [PGOV](#) [SA](#) [QA](#)
SUBJECT: SAUDI SUPPORT PROVIDES BRIEF RESPITE FROM PA
BUDGET WOES

REF: JERUSALEM 1497

Classified By: Deputy Principal Officer Greg Marchese, for reasons 1.4b
and d

11. (C) Summary: The PA will be able to pay salaries through September and reduce its domestic debt slightly after receiving USD 200m in budget support from Saudi Arabia. The PA Ministry of Finance stressed the PA need for additional support from other Arab countries to make it through the end of 2009. In addition to the budget situation, the PA will focus on its Two-Year Plan for Statehood in the upcoming AHLC. The MoF also noted that, if the second telecom provider, Wataniya, fails to launch, it could have dire financial implications for the PA. End summary.

The Good News First

12. (C) Ministry of Finance Director General Mazen Jadallah confirmed that the Saudi contribution of USD 200m in direct budget support landed in the PA's account on August 19. He told Econoff on August 20 that the PA will be able to pay salaries comfortably through September's payment, due in early October. Jadallah confirmed that the PA has recently reduced its debt to commercial banks to around 550m, and has reduced debt to the private sector from USD 100m to USD 50m. Jadallah also said that a donation of USD 28m (from the UK's DFID, Australia, and France) was currently being transferred to the World Bank Trust Fund, and would hit the World Bank's account in the coming week. The European Commission (EC) also transferred 39m Euro (USD 56) in budget support in mid-August.

And Now for the Bad News

13. (C) Unfortunately, Jadallah said, "there's nothing else on the horizon." He was particularly concerned about January/February 2010, when donors traditionally do not transfer money. In addition, Jadallah said that the EC contribution of 13m Euro (USD 18m)/mo. for salaries will run out in October if member states do not make additional contributions. The EC also provides 12m Euro (USD 17m)/mo. for fuel for the Gaza power plant, and these funds will run out in late 2009. The EC Head of Operations, Roy Dickinson, reportedly told Jadallah he is having trouble securing additional contributions from member states, and is going to "talk to the Arabs."

"The Rest of the Year Hinges on the Arab States"

14. (C) Jadallah expressed hope that Saudi Arabia's contribution of USD 200m in direct budget support will pave the way for other Arab states to follow suit. He said that now is the time to exert pressure on the UAE, Kuwait, and Qatar. He estimated the PA needs at least USD 50m from Kuwait, and between USD 50-100m from the UAE in order to make it through the end of 2009. Jadallah reported that the Qatari President recently asked President Abbas for information about Qatari donations to the PA since 2006. The Ministry of Finance sent a letter in response, noting Qatar had provided USD 114m in 2006, USD 110m in 2007, and nothing since. Jadallah was not optimistic Qatar would contribute to the PA, but wanted to be responsive, he said.

Two-Year Plan for Statehood to be Focus of AHLC

15. (C) Budget woes aside, Jadallah confirmed that the PA's Two-Year Plan for Statehood would be the main focus of the AHLC. He said the plan describes the programs and priorities the government must undertake in order to have a well-functioning PA that can become a Palestinian State in two years. He said the PA has reached an advanced state of fiscal reform, and is now shifting its focus to revenue generation, describing an ambitious plan to reform the revenues department, including customs, VAT, and the collection of tax and non-tax revenues. Jadallah also said the PA would press the importance of support for Gaza and for PM Fayyad's small community projects at the AHLC.

Wataniya

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16. (C) Jadallah also noted that the failure of the GOI to provide sufficient spectrum to allow the launch of a second telecom provider, Wataniya, sends the clear message that it is not safe to invest in Palestine. This could have dire financial implications for the PA (reftel), he said.
WALLES